



Ofgem Consultation: Getting more out of our electricity networks by reforming access and forward-looking charging arrangements

Response by E.ON

Executive Summary:

- E.ON welcomes the consultation and agrees that a review of access and forward-looking charging arrangements is needed. There is a significant transformation occurring in the energy system as we push towards a low carbon future, including significant decarbonisation of transport, supported by decentralised flexible generation. It is imperative that charging arrangements support this transition, remove barriers and distortions and provide a sustainable framework for investment decisions.
- In order to achieve such an outcome, it is clear that a broad and comprehensive review will be required to look at whole systems impacts. Failure to do so leads to risks of unintended consequences and could slow or delay the energy transition that E.ON and the Government so strongly supports through its Industrial Strategy and Clean Growth Plan. We have repeatedly called for such a thorough and holistic review in order to avoid the significant risks that are created by a piecemeal approach of multiple separate reviews. We strongly urge Ofgem to ensure the scope of any resultant SCR is broad enough to mitigate these risks.
- There are clear and obvious links between several current Ofgem processes, namely the TCR, the RII0-2 price control and this consultation. E.ON believes that ultimately, charging should be driven by the RII0-2 framework which should clearly describe the cost drivers for network investment in order to establish which costs are forward-looking and which are "residual". The charging methodologies should then reflect these cost drivers. This will allow a transparent regime where network users can see the costs they create but also areas where their decisions will save costs, thereby reducing the overall bill for customers.

Question 1: Do you agree with the case for change as set out in chapter 2? Please give reasons for your response, and include evidence to support this where possible.

1. E.ON agrees that the energy system is undergoing a significant transformation as we push towards a low carbon future supported by decentralised flexible generation in line with the Government's Industrial Strategy and Clean Growth Plan as well as the Ofgem and BEIS Smart Systems and Flexibility Plan. In particular, we see a world in which the emissions from the transport sector are greatly reduced over the next couple of decades as the exponential growth of electric vehicles materialises.
2. This will bring challenges to the system and networks, but also potential opportunities as new technology and innovations are brought forward by the market to help address local constraints and support the integration of renewables by providing almost instantaneous frequency response.
3. The Government has a clear objective to promote flexible decentralised generation and decarbonised forms of heating and transport and it is imperative that the challenges at the distribution networks are managed effectively to facilitate this. It is important that changes do not inefficiently encourage sites to go "off-network" or form microgrids.

4. There are inconsistencies in how generation and demand is currently treated across the transmission and distribution system which may lead to inefficient outcomes for customers.
 - a. As the consultation suggests under the current arrangements distribution connected assets are required to pay all the connection charges prior to the site going live (this is the same for both generation assets and demand consumers) and may place a financial risk on investments. If grid reinforcement is required then not only do they have to pay for their own connected asset but also a proportion of any wider grid reinforcement costs. It is also true that although flexible connections can free up additional capacity on the network it nevertheless can impose additional risks that some projects may not be able to bear.
 - b. The Distribution Network Operators (DNO's) are permitted to constrain these flexibly connected assets under predefined rules rather than how much they value access. All of which can be perceived as a barrier to entry.
 - c. Transmission connected assets in comparison are permitted to spread the cost of the connection across the lifespan of the asset (up to a maximum of 40 years) and the constraints they experience are managed via the Balancing Mechanism (BM) which they are paid for depending on their applicable bid or offer prices (resulting in financially firm access). Transmission connected generators are also able to connect under the 'Connect and Manage' rules without having to wait for wider grid reinforcement.
5. Although the DUoS charging methodology was not designed primarily with embedded generation in mind it is important to note the positive impacts that such assets have on the network (resulting in generation being treated as negative demand). Whilst it is true that parts of the distribution network are constrained, for example where there has been significant deployment of solar assets, such constraints could be far worse if embedded generation was not offsetting the requirement for such grid reinforcements. Therefore, any changes to the access and charging methodology needs to take account of these benefits if it is to pursue an agenda which looks on a whole systems basis.
6. Ofgem has identified several priority areas, informed by the work undertaken by Baringa.
 - a. E.ON agrees that it is imperative that issues on the distribution networks do not create barriers for new low carbon technologies (LCTs) and for households that are looking to decarbonise through electric vehicles (EVs) and heat pumps.
 - b. It is also important that the system is increasingly managed by considering whole system issues across the transmission and distribution networks. The impacts that users have on the system should be reflected in the charges they face, and if users bring benefits to the system, they should be rewarded for this. These charges need to take into account not only the short-term impacts, but also the long-term impacts in the actual costs to the networks – a relative locational impact does not achieve this (e.g. the current TNUoS locational charges do not account for long-term impacts nor do they provide a view of the actual cost impact to the network).
 - c. It is becoming apparent that if the UK is to have a framework which can encourage the efficient deployment of EVs, it must have a charging regime which is aligned with the

objective of encouraging charging to take place away from peak periods which typically create the most challenges for the system. The 2018 Future Energy Scenarios highlighted the benefits of engaged customers who shift demand and provide V2G services to the system, reducing the impact on peak demand from over 16GW to around 3GW. The future network charging arrangements should not be designed to run counter to this objective, however we are extremely concerned that the approach set out in this consultation may well do so.

- d. A priority area of work should be to conduct analysis of the actual drivers of cost that are recovered through the RIIO framework and link the forward-looking charges to these. This will allow a transparent regime where network users can see areas where their decisions will save costs, thereby reducing the overall bill for consumers.
- e. The ESO needs to facilitate flexibility markets to allow providers to offer solutions to network constraints in order to compete against the traditional network reinforcement approach. These markets need to be fair and transparent, with clear requirements, in order to be most effective. It should recognise that it is possible that distribution users can not only provide solutions to issues on the distribution networks, but also potentially to issues on the transmission network (and vice versa), for example, by helping to limit the need to reinforce the network or in providing frequency response.

Question 2: *Do you agree with our proposal that access rights should be reviewed, with the aim to improve their definition and choice? Please provide reasons for your response and, where possible, evidence to support your views.*

- 7. E.ON agrees that there are benefits to reviewing access rights in order to improve the definition of these rights. Only when it is clear what rights individual users actually have, can appropriate cost-reflective charges be applied.
- 8. The need for this change becomes apparent when considering the current difference between distribution and transmission connected users with regards to the rights that their access gives them:
 - a. Under the current arrangements distribution connected assets carry the risk they may be constrained by the network operator without any compensation or payment mechanism in place to support the affected business, the result of which places both an operational and financial risk on the business. Whilst it may be possible to part load a gas turbine (GT) for a period of time in order to comply with the curtailment the user may be impacted financially, not only would they lose the associated value of the electricity export they would have to buy back the export positions already hedged (often through the system imbalance process). As the networks may be constrained when this occurs the system prices are likely to be high so the generator would be buying back their position without benefitting from any payment/compensation.
 - b. For transmission connected assets the position is different as they can price this 'cost' into their Balancing Mechanism (BM) price to ensure that if they are curtailed then they are not financially worse off (indeed it is an optimisation opportunity for them to secure more value for their site). Transmission connected generation and demand users cannot be forced off outside of this BM process, it is therefore imperative and fair to allow

distributed assets to benefit from the same type of mechanism. This will ensure that the appropriate trade-offs between the costs of managing network constraints and the cost of network reinforcement is done on a whole systems basis.

9. Whilst increasing choice of access rights is likely to provide benefits to some users, this will inevitably require a significant degree of engagement and understanding from the user and therefore is likely to have the most benefit for larger users. It is important that options remain open for small users but that barriers to new technology such as EVs are not created by overly complex network access choices/requirements.
10. Allocation of access is also important, but we have significant concerns with the potential use of auctions which we detail in our answers below. However, reallocation of access in order to allow trading of access between parties could provide benefits to users if the potential problems with this can be overcome. This could allow those that value the access the most to secure a connection.

Question 3: *Specifically, do you have views on whether options should be developed in the following areas as part of a review? Please give reasons for your response, and where possible, please provide evidence to support your views:*

a) Establishing a clear access limit for small users, with greater choice of options (as considered under b) and c) below) above a core threshold – do you agree with our proposal in paragraphs 3.5-3.10 that this should be considered? Do you have views on how a core threshold could be set?

11. E.ON agrees that it is important that small users have a clearly defined access product such that the cost-reflective charge for that product can be transparently established.
12. E.ON notes the proposals that a "core" level is likely to be necessary, as there will be many households that do not engage with network charges but still have a clear requirement to use the networks. However, Ofgem need to take care in setting what this "core" requirement is as it could vary significantly from household to household, depending on factors such as number of occupants, vulnerability, lifestyle choices etc. The definition of "essential" need appears to be a policy decision rather than a regulatory one (e.g. an EV may be considered non-essential to a household until it is required to take someone to hospital or could also be viewed as essential to those living in a rural area with a lack of access to public transport but not to those living in urban areas). It is also important that additional requirements to this core level should be reflective of the costs or benefits they impose on the network. If this is done incorrectly, it could create a barrier to the deployment of such technologies. The way in which technology is utilised will play an important part here, as it is possible that new assets, far from imposing a cost on the network, may instead provide benefits by helping to alleviate local constraints.
13. Introducing a core access limit for small consumers could add layers of complexity that directly impact small consumer groups such as households & microbusiness. Ofgem have built into supplier licence conditions requirements to ensure clear & tangible communications with these consumer groups. We feel that any solution introduced needs to maintain this requirement for all licensed industry parties to adhere to. For example, if the network access limit for small consumers worked in a similar fashion to the current connection agreements for large consumers then this would create a requirement for distribution licence conditions to ensure that customer communications are explained clearly with regular communications to consumers to inform them of what their access level limit is.

b) Firm/non-firm and time-profiled access – do you agree with our proposal outlined in paragraphs 3.15-3.21 that these options should be developed?

14. In principle, E.ON supports the proposal for firm/non-firm and time-profiled access rights as the increased choice should allow the network to be used more efficiently and thereby reduce overall costs.
15. These different options need to be clear in the rights they confer and need to be linked directly to the costs/savings to the networks that they create. The current methodologies for calculating charges will need to be reviewed in order to ensure that this is done in a cost-reflective manner. However, there needs to be transparency in the charges that a user at a particular location would face for each of the various access options, which is likely to lead to increased complexity. For example, in some instances, certain access products could confer a benefit to the network by saving costs whereas other products could result in increased costs.

c) Duration and depth of access, discussed in paragraph 3.25-3.32 - would these options be feasible and beneficial?

16. E.ON recognises that there may be potential benefits to long-term, fixed-term access products by aiding network planning. However, it is not clear how substantial these benefits may be and there appear to be significant issues that would have to be overcome:
 - a. As Ofgem note, such products would require a long-term financial commitment from the user, which is likely to create a barrier to entry for many. In addition, large sites which use onsite generation or demand side response technology to manage their network requirements face significant risks when such technology nears its end of life. Fixed-term access rights could create significant risks to investment in replacement generation/technology at such sites.
 - b. The transition to such products appears particularly problematic. Existing users all have “evergreen” contracts. If this would only apply to new users, it would put them at a significant disadvantage. However, there are likely to be severe commercial implications to transitioning existing contracts to fixed-term contracts.
17. The proposal around depth of access appears particularly problematic. This is likely to be extremely complex to implement and manage and would result in market splitting across GB. In addition, flows on the networks are driven by users at all levels (of voltage), so even if access is limited to a certain depth, this would not limit the impact on flows and hence potential constraints/costs. E.ON believes that if the forward-looking charges are appropriately cost-reflective of the impacts that users have on the whole system, then there is no benefit to access products with different depth.

d) At transmission or distribution in particular, or are both equally important – as discussed in this chapter?

18. E.ON believes that it is vital that both the transmission and distribution networks are treated equally during this review in order to achieve the optimal whole systems outcome. Looking at them in isolation risks unintended consequences and has the potential to create discriminatory treatment.

19. Given that the nature of how the networks are used has evolved, with power flowing back and forth across the transmission and distribution networks, there needs to be a degree of harmonisation between them, and any changes resulting from this consultation should reflect this.
20. The consultation perceives most of the priority issues to be on the distribution networks rather than the transmission networks, whereas E.ON believes it would be more efficient to view these more holistically. There should be consideration of how issues such as constraints on any network can best be managed – this may be through reinforcement or flexible commercial solutions on that particular network or by such solutions on another network. Conversely, resolution of an issue on one network should not create or exacerbate an issue on another network. Such considerations need to be coordinated by the ESO. A major challenge is how this is coordinated if the ESO does not have responsibility for operating the system across all voltage levels.

Question 4: *Do you agree with the key links between access and charging we have identified in table 1? Why or why not? Do you think there are other key links we have not identified? Where possible, please provide evidence to support your views.*

21. In principle, E.ON agrees that users with less firm access rights should generally face lower charges as such users should mean the network costs are lower overall in the long-term. It is therefore important that any charges associated with this approach fully take into account the long-term impact.
22. E.ON agrees with the key links around time-profiled access rights.
23. Whilst E.ON agrees that charges should reflect the long-term cost of providing access, we do not agree that the current UoS charges effectively achieve this. E.ON believes that there should be a direct link between the actual drivers of costs that sit under the RIIO framework and the charges that users face. We expand on this point significantly later in our response to Question 8.
24. E.ON does not believe that depth/local access rights would be beneficial as this would increase complexity with little benefit. Ofgem need to review the forward-looking charges to ensure they are reflective of the actual costs/savings that are created on the system because of a user's behaviour.

Question 5: *Do you agree with our proposal that targeted areas of allocation of access should be reviewed? Please give any specific views on the areas below, together with reasons for your response. Where possible, please provide evidence to support your views:*

a) Improved queue management as the priority area for improving initial allocation of access, as outlined in paragraphs 3.41-3.44?

25. E.ON believes that both distribution and transmission connected assets should be treated fairly and equitably with regards to allocation of access and hence that changes in the current arrangements are needed. Currently, transmission users can connect under "Connect & Manage" but this is not available for distribution users, who simply have a choice of non-firm connection. These need to be aligned to ensure a level playing field. If constraints are managed on a whole systems basis, in a harmonised way, as we have proposed elsewhere in this response, then it should be feasible to extend the connect & manage approach to the distribution system.

26. E.ON agrees that this would require clear network standards across the whole system, with charges reflecting constraint costs or savings that are created.

b) Not to consider the potential role of auctions for initial allocation of access as part of a review at this time, as discussed in paragraph 3.44?

27. E.ON agrees that the use of auctions for initial allocation of access should not be taken forward due to the significant challenges that would need to be overcome.
- a. Clearly defined products would need to be developed, explicitly stating what is being auctioned. For a large range of products, either multiple auctions would be required, or a single multiple parameter auction would be necessary.
 - b. An assessment of how geographically diverse the auctions could be would need to be undertaken. If this is too narrow, then it may be difficult to achieve a competitive auction, if it is too broad, it is unlikely to be cost-reflective.
 - c. Given that auctions are driven by value rather than costs, a reserve price would need to be set to avoid under-recovery but this almost inevitably leads to over-recovery and it is unclear how this would be managed.
 - d. The sheer complexity of auctions is likely to create barriers to entry, particularly for smaller users.

c) To review the areas outlined in paragraphs 3.45-3.48 to support re-allocation of access?

28. E.ON agrees that re-allocation of access rights may help in the efficient operation of the networks and would open up optimisation opportunities for flexible users. If this were done via an open market approach it could also lead towards greater competition and reduced costs from constraints.

29. However, there are significant issues that would need further development.

- a. It would require clear, transparent and standardised access products and there would need to be some way of defining how geographically feasible it was to trade access.
- b. The mechanism for trading would need to be developed e.g. bilateral trading, supported by network operators or through some other arrangement such as an open market platform.

30. If these issues could be overcome, then in general such an approach should be beneficial by facilitating the management of the networks on a whole systems basis.

Question 6: *Do you agree that a comprehensive review of forward-looking DUoS charging methodologies, as outlined in paragraphs 4.3-4.7, should be undertaken? Please provide reasons for your response and, where possible, evidence to support your position.*

31. E.ON agrees that a review to the forward-looking DUoS charging methodologies is sensible. As the system moves towards greater levels of flexible decentralised generation, increased granularity in charges is likely to be required in order to ensure cost-reflectivity of charges and as a result minimise costs to customers. The use of zones within distribution networks (similar to the approach used for the transmission network) for the purposes of charging could enable this.

32. The current approach for forward-looking charges for EHV sites results in a highly locational, cost-reflective charge. However, the downside has rightly been identified that this results in significant uncertainty and volatility of the charge. Improving the predictability of EHV charges would be beneficial from a customer and investor perspective, although it is important not to sacrifice too much cost-reflectivity.
33. It is important to ensure that the charges reflect the actual long-term costs/savings imposed on the network by the user to a large degree. It is for this reason, that an extension of the TNUoS forward-looking charging methodology would be unsuitable, as this has significant flaws in that it does not represent the absolute cost impact to the system, merely the relative impact to another location. This means that these charges do not directly link to the actual costs that networks face due to users and that are recovered through the RIIO framework. E.ON believes that both the EHV DUoS and the TNUoS FLCs need to be directly linked to the actual costs as they appear in the RIIO framework.
34. E.ON also agrees that a review of the balance between usage-based charges and capacity-based charges is sensible and would inevitably form a part of the comprehensive review of FLC that we call for above.

Question 7: *Do you agree that the distribution connection charging boundary should be reviewed, but not the transmission connection boundary? Please provide reasons for your response and, where possible, evidence to support your position.*

35. E.ON is supportive of a review of the distribution connection charging boundary as this is currently an area that places distribution connected assets at a disadvantage to transmission connected assets. However, moving to a shallower connection boundary places more emphasis on cost-reflective UoS charges to ensure an efficient network. It is important to learn from the issues identified in the transmission system, which has a shallow boundary and yet fails to appropriately set charges which are cost-reflective at an absolute level, but merely sets charges that are reflective of the relative costs between one location and another. Replicating such an approach must be avoided. Indeed, this issue on the transmission charging arrangements must be tackled as part of the review.
36. It is also necessary to consider how the transition to a shallow boundary at the distribution level would work. Existing users have already paid for a “shallow-ish” connection and hence would effectively be paying again should they suddenly face ongoing UoS charges which reflect a shallow connection boundary. This will have not been factored into the original investment decision, and therefore from a fairness perspective, will require appropriate compensation.

Question 8: *Do you agree that the basis of forward-looking TNUoS charging should be reviewed in targeted areas? If you have views on whether we should review the following specific areas please also provide these:*

Getting more out of our electricity networks by reforming access and forward-looking charging arrangements.

a) Do you agree that forward-looking TNUoS charges for small distributed generation (DG) should be reviewed, as outlined in paragraphs 4.19-4.23?

37. E.ON believes that a much more fundamental review of forward-looking charges is needed, understanding the actual drivers of costs or savings, how these are accounted for under the RIIO framework and then linking these directly to the charges across the whole system.
- a. Currently, the RIIO framework sets how much revenue is allowed to be recovered through network charges. The network charging methodologies then determine how this should be recovered and effectively defines what type of costs are being recovered e.g. forward-looking or residual costs.
 - b. E.ON contends that the RIIO-2 framework should not only set the allowed revenues, but be transparent enough to define how the costs that set the allowed revenue are determined. This then gives clear cost drivers and it is this that should determine how much revenue is forward-looking and how much is residual. The charging methodologies should then reflect these costs as set out in the RIIO-2 framework, with residual charges recovering the residual costs and the forward-looking charges reflecting the forward-looking costs.
38. This therefore requires that all elements of the FLC methodology, including the Transport Model, be reviewed. We have clearly outlined the issues with this model in past responses to the Embedded Benefits review.
- a. The forward-looking component of TNUoS, the locational charge, is only intended to provide a relative locational signal to demand or generation connecting at different locations. Therefore, the range in charges across all locations may be deemed to be cost-reflective. However, the absolute locational signal determined by the Transport model is based upon entirely arbitrary assumptions. The lack of link between the locational charges and the actual costs is made entirely apparent by considering the revenue recovered from such charges. For demand, the locational charges recover effectively zero revenue (the flooring mechanism introduced through CMP264/265 distorts the relative cost reflectivity and hence this actually becomes a negative amount). If the locational charge is supposedly reflecting costs to the system created by users' decisions now and in the future, this result is clearly illogical.
 - b. Should the forward-looking costs be transparently stated in the RIIO-2 framework, then the forward-looking charges can be made to fully reflect these costs. This effectively creates the link between the actual (or absolute) costs on the network due to users' decisions and the charges they face, as opposed to the current methodology which has no such link.
39. E.ON strongly suggests that this should be a top priority area for Ofgem and find it deeply disappointing that Ofgem appear to be ruling out this fundamental piece of work going forward.
40. Reviewing elements of the charges in a piecemeal fashion is highly likely to result in unintended consequences, reducing efficiency and increasing costs to customers. Clearly, such a comprehensive review would include an assessment of the impact of DG on the transmission system, whether this was to increase or decrease costs.
41. With regards to the specific, narrow areas that Ofgem has highlighted for review, E.ON agrees that these need to be included within the more holistic review that we describe above. This

would include looking at how DG is charged and the benefits or otherwise of moving to a capacity-based charge similar to how TG is currently charged. However, should such a change occur, it would be necessary to give DG the same rights that TG has, in particular around the compensation that TG can receive if constrained off through the BM. It would be distortionary to charge DG TNUoS charges based upon their capacity but then not allow them access to similar compensation. In addition, if the aim is to harmonise the treatment of DG and TG, then it is important that this harmonisation includes not only TNUoS charging but also DUoS charging. It would be illogical to suggest that TG should only pay TNUoS whereas DG should pay both the same amount of TNUoS (in a given location) as well as DUoS. This clearly does not represent equal treatment with respect to network charges.

b) Do you consider that forward-looking TNUoS charges for demand should be reviewed, as outlined in paragraphs 4.24-4.27?

Please provide reasons for your response and, where possible, evidence to support your position.

42. As previously described, we believe that a fundamental review of the TNUoS FLC is required in order to ensure a consistent approach between the drivers of long-term network costs/savings, how these are accounted for in the RIIO framework and then linking these directly to the FLC.
43. Such an approach will correct the existing issues with the TNUoS charging methodology and will ensure that the charges are cost-reflective on an absolute basis in order to create a level-playing field that is sustainable. To do otherwise, though an incomplete review, inherently leads to a less efficient charging framework that will harm competition and increase overall costs to consumers.
44. This will mean that providers of flexibility and industrial sites have a charging framework that can be relied upon to make informed investment decisions based upon a true reflection of their costs over the long-term. The latter point is a particularly important factor as the current TNUoS methodology does not appropriately reflect the cost variances over the long-term.
 - a. For instance, a user may respond to the current signal that suggests a particular location will reduce the need for network reinforcement.
 - b. Whilst it would receive that signal for the first year after connection, in subsequent years the Transport model is used to re-calculate the locational signals now accounting for the new user. Under this methodology, there is a significant possibility that the signal could change substantially and even reverse indicating that network costs in that location have increased. Whilst this may be true for new users in this location, the fact remains that the avoided network costs that resulted from the first user still remain and yet are no longer reflected in the FLCs.
 - c. The methodology uses LRMC of network reinforcement as inputs into the model, but this does not mean that the outputs of a model that is run annually to set charges is reflective of the long-term impacts.

Question 9: *Do you agree that a broader review of forward-looking TNUoS charges, or the socialisation of Connect and Manage costs through BSUoS at this time, should not be prioritised for review? Please provide reasons for your response and, where possible, evidence to support your position.*

45. E.ON contends that a broader review of forward-looking TNUoS charges should be conducted as a priority as explained in our response to Question 8.
46. E.ON believes that there are potential benefits in reviewing the socialisation of Connect and Manage costs through BSUoS as part of this broader review. Given the inherent trade-off between overall network reinforcement costs and constraint management costs, it is our view that the only way a whole systems approach can be taken, is if the review also considers this aspect of charging.
47. For example, consider two scenarios:
- a. A user connects in a particular location that exacerbates a constraint. This constraint is managed through the procurement of ancillary services and/or the balancing market.
 - b. Another user connects in a particular location which exacerbates a constraint but this time the economic option to manage the constraint is network reinforcement.

Although the two users could be identical in all respects, with the same overall impact on the network (in terms of power flows), the recovery of the costs would be very different, with one smearing much of the cost across all users through BSUoS, and the other facing more specific locational costs. Conducting a review without considering both of these aspects may lead to inefficient decisions being made by networks and users.

Question 10: *Do you agree that there would be value in further work in assessing options to make BSUoS more cost-reflective, and if so, that an ESO-led industry taskforce would be the best way to take this forward?*

48. E.ON's responses above make it clear that Ofgem should undertake a more comprehensive review than the one they are currently proposing and that this should include further work in assessing the cost-reflectivity of BSUoS. We would imagine that such work would progress through a task-force process, but suggest it be led by Ofgem with strong industry input in order to ensure the work is fully joined up with other areas under review that inherently interact with one another.
49. However, should Ofgem decide not to include a review of BSUoS in its proposed SCR, E.ON would be supportive of an ESO-led industry process. This should be comprehensive in nature, looking at issues with BSUoS more broadly than just constraint costs. E.ON believes the ESO is well placed to lead on such a project and this would be far more suitable than a piecemeal approach that might occur through multiple separate industry code modifications. Whilst the latter approach might appear to be able to produce "quick wins", it creates a significant risk of unintended consequences as issues that inherently interact with one another are looked at in isolation.

Question 11: *What are your views on whether Ofgem or the industry should lead the review of different areas? Please specify which of SCR scope options A-C you favour, or describe your alternative proposal if applicable. Please give reasons for your view.*

50. As stated above, E.ON proposes that the best approach would be an Ofgem led process with significant industry involvement through task forces. This should be a comprehensive review – indeed broader than that suggested by Ofgem under option C.

Question 12: Do you agree with our proposal to launch an 'Option 1' SCR for areas of review that we lead on? Please give reasons for your view.

51. Yes, E.ON agrees with this approach as it places most of the solution development within the SCR process where it can be coordinated to ensure no unintended consequences. This then allows clear direction for the necessary code modifications to be quickly developed. E.ON believes that the code modification processes work best when there is a clear issues or change identified that the industry workgroups can then find the best solution to.

Question 13: Do you agree with the introduction of a licence condition on the basis described in paragraphs 5.11 and 5.12 and Appendix 5? Why or why not? Do you have any comments on the key elements set out in table 7 of Appendix 5a, or consider there are any other key elements which should be included? Please give reasons for your view.

52. E.ON believes that as the role of the ESO develops, it will inherently expand to include the issues that have been highlighted by Ofgem. The ESO, with the right incentive framework, should have responsibility to lead reviews of market arrangements to deliver the most benefit for consumers. This would also include a clear requirement to effectively engage stakeholders to ensure industry expertise is utilised to produce the best outcome. Whilst not necessarily opposed to a new licence condition, E.ON does not believe that it should be necessary to ensure the ESO performs the functions its role requires.

Question 14: Do you have any comments on the draft wording of the outline licence condition included at Appendix 5b? Please give reasons for your view.

53. Should a licence condition be deemed necessary, E.ON believes that it should reflect the expanding ESO role to manage whole systems issues and therefore lead on any such reviews. E.ON therefore would suggest any licence condition on the DNOs should be to support the ESO in this function, but recognise the ESO as the responsible party.

Question 15: What are your views on our indicative timelines? Do you foresee any potential challenges to, or implications of, the proposed timelines and how could these be mitigated?

54. E.ON agrees that the timelines look reasonable for the likely work involved. There needs to be a trade-off between ensuring that sufficient work and analysis is undertaken to ensure a sustainable solution and a process that takes too long with the associated ongoing uncertainty.
55. It is also worth noting that this is a significant review that will need to draw heavily from industry expertise. Many industry parties are resource constrained given the pace of changes in the market (such as Ofgem's TCR and other code modifications), and hence allowance will need to be made to ensure they are able to effectively input into the process.

Question 16: What are your views on our proposals for coordinating and engaging stakeholders in this work?

56. E.ON agrees that task forces are essential for industry input and that CFF and CDB can and should continue to coordinate.